

## **Revolving Loan Fund Policy Mankato Valley Opportunities**

### **Section 1. Purpose**

The Mankato Valley Opportunities Revolving Loan Program is undertaken for the purposes of:

1. Providing financial assistance for local businesses to make improvements to their property, their neighborhoods, and the community as a whole.
2. Increasing the financial involvement of public agencies and private lending institutions in the improvement of the commercial building stock in the targeted areas.
3. Making a visible and substantial impact upon building conditions, community appearance, and overall quality of life in the area.

### **Section 2. Property Eligibility**

#### *Qualification*

In order to qualify for the program, the current property valuation, as determined by Blue Earth County, must be at or below \$500,000. The property must be commercial in nature and in a conforming zoning district.

The building must be the applicant's principal place of business. "Principal Place of Business" means that building which the Applicant uses year-round for the operation of his/her business. The building must be the primary structure which houses the majority of the business's sales stock, office space, or manufacturing equipment and which provides the central focus of the business's day-to-day operation.

Correction of substandard building conditions may be required as part of the loan approval. Projects to buildings that are 50 years old or older will be reviewed by the Mankato Heritage Preservation Commission (MHPC) to determine if the structure is historically significant before any rehabilitation occurs. The City may also require restoration or upgrade of exterior building façades per City standards for urban design, historical preservation, and the Downtown Design District, should these be applicable to the applicant's property.

#### *Eligible Applicants*

The property owner or tenant of the building shall be eligible to make application. If a tenant makes application, written approval and concurrence from the owner is required.

In order to be considered eligible, applicants shall also demonstrate proof of the following:

- Property insurance or commitment to provide insurance.
- Property taxes paid and non-delinquency.
- Utility bills for services provided by the City of Mankato are paid and non-delinquent.

- No judgments, liens, agreements, consent decrees, stipulations for settlements, or other such actions that are not resolved and released.
- Compliance with all applicable City of Mankato ordinances, plans, and adopted policies.

### **Section 3. Activity Eligibility**

#### *Eligible Activities*

Loan Funds shall be available to qualifying properties for the following eligible activities, provided such activities commence after the loan approval date:

- Building improvements related to Building Code compliance and upgrades to substandard building conditions, as referenced in Mankato City Code Section 13.07.
- Exterior improvements.
- Energy efficiency related improvements.
- Accessibility improvements.
- Leasehold improvements.

#### *Ineligible Activities*

Loan funds shall not be available for the following activities:

- Debt refinancing, debt repayment or consolidation, and other financing costs.
- Creation or rehabilitation of housing units. Properties containing a mixture of housing and commercial/business space may be qualifying, provided the funded improvements are for nonresidential tenant spaces and/or general building improvements related to code compliance.
- Removal of existing structures or construction of new structures.
- Reimbursement for expenditures or improvements made prior to loan approval.
- Equipment.
- Building maintenance activities.
- Professional services fees, management fees, franchise fees, moving costs, and operating costs.
- Acquisition of buildings or land

### **Section 4. Terms of Financing and Security**

Loans shall be secured by a mortgage and promissory note that may be subordinated to a primary private mortgage or financing. The Executive Director may approve requests for

subordination during the term of the loan; provided a current certified appraisal of the property is submitted and the loan to value ratio does not exceed ninety (90) percent.

The loan-to-value (LTV) ratio is the portion of the amount borrowed against the property as a percentage of the total appraised value of the real property - that is, mortgage debt divided by the value of the real property. For instance, if a borrower has an existing 1<sup>st</sup> position mortgage in the amount of \$200,000 and a Valley Opportunity Revolving loan of \$20,000 for improvements to real property valued at \$300,000, the LTV ratio is \$220,000/\$300,000 or 73%. Requirements for loans may also include a loan agreement with the City.

### *Repayment Options*

Loans shall not be considered grants and shall be repaid to the City over a specified term. Repayment options include monthly level debt installments. Flexible repayment options such as interest only payments for a limited time period and/or delayed first payment may be considered by the Executive Director of the Economic Development Authority, or designee; however, options shall be structured for full recovery of the principle and interest over the term of the loan.

Repayment shall commence within one month of completion of construction or taking possession of purchase property.

## **Section 5. Loan Amounts and Matching Funds**

### *Loan Amounts*

Commercial Applicants are eligible for:

- A Low Interest Loan of up to \$20,000. Loans will be provided at a fixed interest rate of 3% and a ten (10) year term. The Economic Development Authority (EDA) may periodically adjust the fixed interest rate for new applications based on the federal discount rate, the prime rate, and other rate indexes. A 50% match is required for the low interest loan.
- A Deferred Loan of up to \$5,000 solely for exterior improvements. The deferred loan is available only in conjunction with a low interest loan. The deferred loan is at 0% interest and is forgiven over a five year term. For each year of continued ownership, the principle amount is reduced by 20%. A 50% match is required for the deferred loan.

### *Match Requirement*

A match in the form of cash equity and/or privately secured mortgage or other private financing is required in the amount of one-half (1/2) of the total project cost.

## **Section 7. Lease Requirements**

The following shall apply to leases created or retained as result of the loan:

*Term:* The term of new or existing leases created or retained as the result of the loan must match the loan amortization schedule or include a repayment of the loan upon lease termination.

For owner occupied buildings where no leases exist, the owner shall enter into a development agreement with the City in which the owner agrees to continue the business at the location for the term of the loan.

## **Section 8. Lead-Based Paint**

All projects completed for mixed-use buildings that include a residential component will be evaluated for the necessity of a lead hazard assessment for the components of the project which would affect the residential portion of the building. Should a lead hazard assessment be determined necessary, any lead hazards found shall be abated as part of the project.

## **Section 9. Administration**

The administrator of the loan program shall be the Executive Director of the Mankato Economic Development Authority, or designee. It shall be the responsibility of the administrator to coordinate all aspects of the program.

## **Section 10. Application Requirements**

Applications will be reviewed for eligibility and if deemed eligible, be approved administratively.

Applications must include the following:

1. Fully completed application form.
2. Private financial commitments and evidence of equity contribution.
3. Executed lease commitments, proposed tenants and occupancy, and proposed lease rates.
4. A complete detailed scope of construction work including supporting contractor estimates, site plans, floor plans, building elevations, and other development plans as requested by City of Mankato staff and as outlined in Section 10.90 of the Mankato City Code. If zoning approvals are required for the project, all such approvals shall be obtained prior to submittal of the application.

5. Applications must include a copy of all current mortgages and other financial encumbrances on the property to be improved. The Loan to Value Ratio, as defined in Section 4 above, must not exceed ninety (90) percent.

If approved, applicants are responsible for cost of preparing loan documents, title examination fees, closing costs, and recording fees.

#### **Section 11. Delinquency and Default**

Provisions and standards for delinquency and default shall comply with Sections X and XI of the Economic Development Revolving Loan Guidelines as adopted by the EDA.

#### **Section 12. Other Provisions and Appeals**

Section VIII, subparts L, M, N, O, P, and Q of the Economic Development Revolving Loan Guidelines as adopted by the EDA are hereby incorporated by reference.